

February 17, 2006

Ms. Mary Rupp
Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Re: Interagency Guidance on
Nontraditional Mortgage Products

Dear Ms. Rupp:

Navy Federal Credit Union provides the following analysis and observations in response to the federal banking agencies' request for comment on proposed guidance for nontraditional mortgage products.

We support reasonable efforts by the agencies to protect the interests of credit union members and to assure that credit unions effectively assess and manage risks associated with nontraditional mortgage loan products. The proposed guidance discusses nontraditional mortgage loans as products that allow borrowers to defer repayment of principal and sometimes interest for a fixed period of time. It specifically refers to "interest-only" mortgages and "payment option" adjustable-rate mortgages.

Navy Federal believes interest-only mortgage loans are an important alternative to traditional mortgages for selected members in certain circumstances. An interest-only mortgage loan may help a family achieve home ownership when a traditionally amortized loan would be financially out of their reach. We believe interest-only loans may be a viable alternative for certain families experiencing one or a combination of circumstances including living in areas where home prices are steadily appreciating, relocating in relatively short periods of time, having temporary expenses such as education, expecting career advancement, or anticipating a spouse returning to the workforce.

Credit unions offering nontraditional mortgage loan products should be particularly concerned with balancing associated product risks with members' current homeownership needs while preserving members' long-term financial stability. We believe this could be done in a variety of ways. The agencies should clarify the proposed guidance to provide sufficient flexibility to effectively balance needs and risks in a variety of situations and circumstances. For example, the agencies repeatedly use the terms "fully amortize" and "fully indexed rate" in the discussion of loan terms and underwriting standards for nontraditional mortgage products.

Ms. Mary Rupp
Page 2
February 17, 2006

At face value, this discussion implies that refinancing cannot be considered as an option when underwriting a nontraditional mortgage loan. Navy Federal does not condone refinancing that is not beneficial to the borrower. However, balloon mortgage loans with their inherent associated refinances have been successfully used many years for traditional mortgage loans. While we agree that nontraditional mortgage loans should be thoroughly and carefully reviewed, we believe the guidance should permit consideration of possible refinancing involving nontraditional products. To do otherwise will undoubtedly deny homeownership to a number of deserving families. We urge the agencies to provide prudent flexibility in its guidance.

Additionally, we believe member education is an important ingredient of a responsible nontraditional mortgage loan program. Members should clearly understand the terms of nontraditional mortgages – specifically, when and how much payments will change, the uncertainties of expected appreciation, the prospects for unfavorable refinancing options, etc. We encourage the agencies to develop educational materials that financial institutions could use when educating their borrowers about nontraditional mortgage loan products and options.

Navy Federal appreciates the opportunity to provide comments on the proposed guidance for nontraditional mortgage products.

Sincerely,

A handwritten signature in dark ink, appearing to read "Cutler Dawson". The signature is fluid and cursive, with the first name "Cutler" and last name "Dawson" clearly distinguishable.

Cutler Dawson
President/CEO

CD/dw